

PENSION PLAN SERVICE RETIREMENT

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Service retirement is possible under the FRS Pension Plan once certain criteria are met. The requirements for retirement and the steps involved in the retirement process are discussed in this chapter. (For information on IFAS Supplemental Retirement Benefits, see Chapter 12, Part IX. For information on the FRS Investment Plan, see Page 9-37.)

This Division of Retirement Employer Handbook is intended for the employers of members of the FRS Pension Plan or the FRS Investment Plan. However, references to an FRS member in this Handbook will refer to a member of the FRS Pension Plan, unless stated otherwise. The division is responsible for processing contributions and maintaining service credit records for Investment Plan members, and for administering Investment Plan members' disability benefits and Health Insurance Subsidy benefits. Procedures in this handbook are well marked to indicate the difference in actions required of the employer with respect to Pension Plan vs. Investment Plan members.

I. REQUIREMENTS FOR VESTING AND RETIREMENT

Vesting Requirements for Members Enrolled on or after 7/1/11

All members of the FRS Pension Plan initially enrolled on or after July 1, 2011, are vested upon completing eight years of creditable service (including military leaves of absence), regardless of their membership class.

Vesting Requirements on or after 7/1/01 through 6/30/11

All members of the FRS Pension Plan actively employed on July 1, 2001, are vested upon completing six years of creditable service¹ (including military leaves of absence), regardless of their membership class. Members initially enrolled on or after July 1, 2001, through June 30, 2011, become vested upon completing six years of creditable service (including military leaves of absence), regardless of their membership class.

Pre-7/1/01 Vesting Requirements

Before July 1, 2001, the number of years required for a member of the FRS Pension Plan to vest depended upon membership class. Members of the Senior Management Service Class vested upon completing seven years of creditable service, members of the Elected Officers' Class vested upon completing eight years of creditable service, and members of all other classes vested after completing 10 years of creditable service.

Normal Retirement Requirements

Normal retirement requirements for members of the FRS Pension Plan are shown below:

- **Regular Class, Elected Officers' Class (EOC) and Senior Management Service Class (SMSC)** – For members initially enrolled before July 1, 2011, vested and age 62 or after 30 years of creditable service regardless of age (may include optional service credit). For members initially enrolled on or after July 1, 2011, vested and age 65 or after 33 years of creditable service regardless of age (may include optional service credit).
- **Special Risk Class** – For members initially enrolled before July 1, 2011, six years of special risk service and age 55; or 25 total years of special risk service and age 52 (may include up to four years of military service); or 25 years of special risk service regardless of age; or 30 years of any creditable service (may include credit for up to four years of military service). For members initially enrolled on or after July 1, 2011, eight years of special risk service and age 60; or after 30 total years of special risk service and age 57 (may include up to four years of military service); or after 30 years of special risk service regardless of age; or after 33 years of any creditable service (may include optional service credit and service in other membership classes).

¹ To vest with six years of creditable service, a member must have been actively employed in an FRS covered position on July 1, 2001. Inactive members with six or more years of FRS service did not automatically vest on July 1, 2001; these members must return to work and complete at least one work year of creditable service under the FRS to vest (except that no member is required to complete more than the seven, eight or 10 years of service required before July 1, 2001).

- **Special Risk Administrative Support Class** – For members initially enrolled before July 1, 2011, members of this class will qualify for special risk normal retirement age or date (see requirements on previous page) provided they have at least six years of special risk or special risk-related service. For members initially enrolled on or after July 1, 2011, members of this class will qualify for special risk normal retirement age or date (see requirements on previous page) provided they have at least eight years of special risk or special risk-related service. If members of this class do not meet the Special Risk Class normal retirement requirement they are subject to Regular Class normal retirement requirements.

Early Retirement

If a member is vested under the membership class but has not yet reached normal retirement age or date, early retirement can be taken. The amount of the benefit will be reduced by 5 percent for each year (or 5/12 of 1 percent for each month) the retirement date precedes normal retirement age.

STATUTORY REFERENCE:

Sections 121.021(29) and (30), 121.055(4), and 121.091(1) and (3), Florida Statutes

FRS RULE REFERENCE:

Sections 60S-4.003, Florida Administrative Code

II. RETIREMENT BENEFIT FORMULA

The monthly benefit a member will receive at retirement depends on the years of creditable service, percentage value for each year of creditable service, and average final compensation. The amount may be reduced if the member retires early or selects benefit payment Option 2, 3, or 4. An Option 1 benefit at normal retirement age is calculated as follows:

Years of Creditable Service	X	Percentage Value	X	Average Final Compensation	=	Yearly Option 1 Benefit at Normal Retirement Age
Yearly benefit ÷ 12 = Monthly Option 1 Benefit						

Years of Creditable Service

“Years of creditable service” is the total years and parts of years a member works in positions covered by the FRS or in one of the closed retirement systems in which the member may have participated before joining the FRS, plus any additional service for which retirement credit is purchased.

Percentage Value

“Percentage value” is the value a member receives for each year of creditable service. The chart on the following pages shows the percentage values for the FRS and the closed retirement systems.

Retirement Plan	% Value (per year of
FLORIDA RETIREMENT SYSTEM (FRS)	
Regular Class (members initially enrolled before July 1, 2011)	
Retirement up to age 62 or up to 30 years	1.60%
Retirement at age 63 or 31 years	1.63%
Retirement at age 64 or 32 years	1.65%
Retirement at age 65 or 33 or more years	1.68%
Regular Class (members initially enrolled on or after July 1, 2011)	
Retirement up to age 65 or up to 33 years	1.60%
Retirement at age 66 or 34 years	1.63%
Retirement at age 67 or 35 years	1.65%
Retirement at age 68 or 36 or more years	1.68%
Elected Officers' Class	
Judges and Justices	3.33%
All Others	3.00%
Senior Management Service Class	
Service on and after February 1, 1987	2.00%
Special Risk Class	
Service from December 1, 1970 through September 30, 1974	2.00%
Service from October 1, 1974 through September 30, 1978	3.00%
Service on or after October 1, 1978	3.00%
Past service with city or special district purchased as Special Risk service	2.00%

Special Risk Administrative Support Class(with 6 years of Special Risk service credit and initially enrolled before July 1, 2011)

Retirement up to age 55; or up to 25 years of creditable service; or, if active duty wartime military service is included in the creditable service, at age 52 with 25 years	1.60%
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Retirement at age 56; or with 26 years of combined Special Risk, Special Risk Related, and Special Risk Administrative Support Class service; or, if active duty wartime military service is included in the creditable service, at age 53 with 26 years	1.63%
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Retirement at age 57; or with 27 years of combined Special Risk, Special Risk Related, and Special Risk Administrative Support Class service; or, if active duty wartime military service is included in the creditable service, at age 54 with 27 years	1.65%
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Retirement at age 58; or with 28 years of combined Special Risk, Special Risk Related, and Special Risk Administrative Support Class service; or, if active duty wartime military service is included in the creditable service, at age 55 with 28 years	1.68%
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Special Risk Administrative Support Class(with 8 years of Special Risk service credit and initially enrolled on or after July 1, 2011)

Retirement up to age 60; or up to 30 years of creditable service	1.60%
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Retirement at age 61; or with 31 years of combined Special Risk, Special Risk Related, and Special Risk Administrative Support Class service	1.63%
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Retirement at age 62; or with 32 years of combined Special Risk, Special Risk Related, and Special Risk Administrative Support Class service	1.65%
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Retirement at age 63; or with 33 years of combined Special Risk, Special Risk Related, and Special Risk Administrative Support Class service	1.68%
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TEACHERS' RETIREMENT SYSTEM (TRS)

Plan E	2.00%*
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*For more on requirements for and calculation of benefits under TRS, please contact the Division of Retirement. You may call the division toll-free at 877-377-1266 or 850-907-6540, or email enrollment@dms.fl.gov.

For military service values, see Chapter 7, Part III, section C.

Average Final Compensation (AFC)

For members initially enrolled before July 1, 2011, average final compensation (AFC) is the average of the five highest fiscal years of salary an employee earns during covered employment. For members initially enrolled on or after July 1, 2011, the AFC is the average of the eight highest fiscal years of salary an employee earns during covered employment. Salaries are counted by fiscal year (July 1 - June 30). If an employee worked only part of a year, you can determine whether the months worked should be included within one of the highest years by dividing the actual salary received in the partial year by the percentage of a year of creditable service earned for that year². If the resulting amount is one of the highest salaries, the actual salary received should be used in the AFC. Since this represents only a percentage of a year, the remaining percentage necessary to complete the necessary years of creditable service in the AFC should be added from the next highest fiscal year's salary.

Federal law under section 401(a)(17) of the Internal Revenue Code limits the amount of annual salary that may be applied towards retirement, and therefore the amount of annual salary that can be used in the AFC. Employees who initially became members of the FRS on or after July 1, 1996, were initially subject to a maximum fiscal year salary of \$150,000, an amount that is adjusted incrementally³ by the Commissioner of the Internal Revenue Service to reflect cost-of-living adjustments. Based on the FRS Plan Year, as of July 1, 2021, this limit is \$290,000. Employees who initially became members of the FRS before July 1, 1996, are subject to a higher fiscal year limit, which is adjusted annually by the Commissioner of the Internal Revenue Service to reflect cost-of-living adjustments. As of July 1, 2021, this limit is \$432,740 for FRS members.⁴

Community colleges and other local agencies that administer an optional retirement program for employees in lieu of the FRS are also subject to this federal law and should limit compensation included in their retirement plans accordingly. The higher limit adopted by the 1996 Legislature (\$432,740 in Fiscal Year 2021-22) is applicable only to FRS, TRS, SCOERS, SMSOAP, and SUSORP members or participants who were initially members of those plans prior to July 1, 1996.

STATUTORY REFERENCE:

Sections 121.091 and 121.30(6), Florida Statutes

FRS RULE REFERENCE:

Section 60S-4.004, Florida Administrative Code

² For example, if a member worked three months earning \$12,000 over that period, you would divide \$12,000 by 25 percent (the percentage of a year's creditable service earned) to arrive at an annualized compensation of \$48,000.

³ In other words, this limit will not necessarily be adjusted annually.

⁴ This limit is slightly higher than the "grandfather" limit set by IRS, due to differences in methods for determining cost-of-living adjustments.

III. BENEFIT ESTIMATES

Official Estimates

Upon request, the division will calculate an estimate of an employee's retirement benefits. We encourage members to request an estimate four to five years before retirement. To request an estimate, contact the Division of Retirement. You may call the division toll-free at 844-377-1888 or 850-907-6500. Use [Form FR-9](#), Information Request (an online version of [Form FR-9](#) may also be completed and submitted electronically via the division's website) or other written request to:

Division of Retirement
P.O. Box 9000
Tallahassee, Florida 32315-9000

(See Chapter 7, Part II, for more information.)

IV. RETIREMENT APPLICATION

Retirement is not an automatic process. An employee can begin receiving monthly retirement benefits only after making proper application on [Form FR-11](#), FRS Application for Service Retirement, and terminating covered employment. The earliest an employee can apply for retirement is six months before termination of employment. For retirement purposes, an employee is considered terminated only after stopping all employment with all employers covered by the FRS.

The division will acknowledge receipt of the application form and advise the employee of anything else needed to complete the application. The employee may change any item on the application prior to retirement. However, once a benefit payment has been cashed or deposited, the employee's retirement is final and the option selection cannot be changed, no additional service credit can be added, the type of retirement cannot be changed and no election to the Investment Plan may be made.

NOTE: A member who wishes to participate in the Deferred Retirement Option Program (DROP) must also apply for retirement. However, the procedures and forms to retire and enter DROP are somewhat different from the procedures and forms described in this part. (For details on the DROP process and the program generally, see Part XIV of this chapter and Chapter 13, Part III.)

STATUTORY REFERENCE:

Section 121.091, Florida Statutes

FRS RULE REFERENCE:

Sections 60S-4.002(2), (3), and (4) and 4.010(5), Florida Administrative Code

V. RETIREMENT DATE

The effective date of retirement is always the first day of the month. If the division receives the application form before the employee terminates employment or within 30 days thereafter, the effective retirement date will be the first day of the month following termination. If the application is not received until 30 days after termination, the effective retirement date will be the first day of the month following receipt of the application form by the division. (See Chapter 10, Part III, for effective dates of retirement for disability retirees.)

The employee may choose to defer the retirement to some future date. The effective date of retirement will be the first day of the month following receipt of the application, unless a later date is specified. The division will accept an application for benefits up to six months before the desired retirement date.

STATUTORY REFERENCE:

Section 121.091, Florida Statutes

FRS RULE REFERENCE:

Section 60S-4.0035(3), Florida Administrative Code

VI. PROOF OF AGE

When the employee applies for retirement, proof of age must be furnished. If Option 3 or 4 is chosen, proof of age for the employee's joint annuitant must also be provided. The division will accept a legible copy of one of the following documents:

- Birth certificate
- Delayed birth certificate
- Census report more than 30 years old
- Life insurance policy more than 30 years old
- Certificate of naturalization
- Valid, unexpired U.S. passport
- Florida driver's license issued after January 1, 2010, that indicates compliance with the federal REAL ID Act

If the employee cannot furnish any of the above, a legible copy of a document from two of the following categories will be required:

- Birth certificate of a child, giving the employee's (or joint annuitant's) age
- Baptismal certificate more than 30 years old
- Hospital record of birth
- School record at the time the employee (or joint annuitant) entered grammar school

STATUTORY REFERENCE:

Section 121.031, Florida Statutes

FRS RULE REFERENCE:

Section 60S-4.0035(2), Florida Administrative Code

VII. OPTION SELECTION

At retirement, the employee must choose one of four benefit payment options on [Form FRS 11o](#). Retirement benefits cannot be received until an option has been selected. Once a benefit payment has been cashed or deposited, or the member begins participation in DROP, the option selection cannot be changed.

In addition to [Form FRS 11o](#), the employee must complete and sign [Form SA-1](#), to indicate whether they are married. If an employee is married and selects either Option 1 or 2, the spouse must acknowledge the option selection and sign [Form SA-1](#). The employee may not begin receiving retirement benefits until the required forms are submitted to the division.

Options 2, 3, and 4 are actuarially adjusted from Option 1. This means that, while the monthly benefit is usually lower, the total benefits expected to be paid to the employee and designated beneficiary or joint annuitant under Options 2, 3, or 4 are equal to the total lifetime benefits expected to be paid to the member alone under Option 1.

If an employee selects Option 3 or 4 and names their spouse as their joint annuitant, the employee must submit a copy of their marriage certificate with their application.

FRS Benefit Payment Options

Option 1: A monthly benefit payable for the employee's lifetime. Upon the death of the employee, the monthly benefit will stop and the beneficiary will receive only a refund of any contributions paid which are in excess of the amount the employee received in benefits. This option does not provide a continuing benefit to a beneficiary.

Option 2: A reduced monthly benefit payable for the employee's lifetime. If the employee dies within 120 months of the effective retirement date⁵, the designated beneficiary will receive a monthly benefit payment in the same amount as the member was receiving for the balance of the 120-month period. No further benefits are then payable.

Option 3: A reduced monthly benefit payable for the employee's lifetime. Upon the employee's death, the joint annuitant (spouse or eligible financial dependent), if living, will receive a lifetime monthly benefit payment in the same amount as the employee was receiving.* No further benefits are payable after both the employee and the joint annuitant are deceased.

Option 4: An adjusted monthly benefit payable at a higher level while both the employee and the joint annuitant (spouse or eligible financial dependent) are living. Upon the death of either the employee or joint annuitant, the monthly benefit payable to the survivor is reduced to two-thirds of the monthly benefit received when both were living.* No further benefits are payable after both the employee and the joint annuitant are deceased.

***NOTE:** The benefit paid to the joint annuitant under age 25, who is not the employee's spouse, will be the employee's Option 1 benefit amount. The benefit will stop when the joint annuitant reaches age 25, unless disabled and incapable of self-support, in which case the benefit will continue for the duration of the disability.

⁵ For members in DROP, the 120 payments begin on the first day of DROP participation, not after DROP ends.

IMPORTANT: Please make it clear to employees who select Option 4 that this is the only option under which the benefit will automatically be reduced upon the death of either the member or the joint annuitant after retirement commences. This reduction also applies when a husband and wife are both FRS members and both select Option 4. Both benefits will be reduced when either spouse dies.

Changing Retirement Options

If the employee elects to change retirement options, [Form FRS-11o](#), Option Selection for FRS Members, and [Form SA-1](#), Spousal Acknowledgement, must be submitted. Once a benefit payment is cashed or deposited, or the member begins participation in DROP, the option selection cannot be changed.

STATUTORY REFERENCE:

Section 121.091(6), Florida Statutes

FRS RULE REFERENCE:

Section 60S-4.010, Florida Administrative Code

VIII. BENEFICIARY DESIGNATION

Under the FRS Pension Plan,⁶ at the time of retirement, all previous beneficiary designations are null and void unless an employee retired, returned to covered employment before July 1, 2011, worked long enough to be vested, and is applying for a “second-career” retirement benefit. The employee is required to designate a retirement beneficiary on [Form FR-11](#), FRS Application for Service Retirement. The employee may designate one or more beneficiaries sequentially or jointly. To designate more than one beneficiary, [Form FST-12](#), Beneficiary Designation Form (Retired Members Only) [including DROP participants], the employee must be submitted.

Beneficiary Designation and Option Selection

- If the member chooses Option 1 or 2, any person, organization, trust, or the estate may be named as beneficiary. The member may name one or more beneficiaries to receive benefits jointly or sequentially.
- If the member chooses Option 2, one or more contingent beneficiaries may be named to receive any benefits remaining upon the member’s death and the death of all primary beneficiaries. (See Chapter 11, Part I, for additional information on contingent beneficiaries.)
- If the member chooses Option 3 or 4, the beneficiary must be a person who qualifies as a joint annuitant.
- If the member chooses Option 3, more than one joint annuitant may be named and the percentage of the benefit to be paid to each must be specified.

DROP participants are also subject to the beneficiary designation provisions described above (except [Form DP-11](#) should be completed instead of [Form FR-11](#)).

[Form FST-12](#) must be used by DROP participants who wish to designate more than one beneficiary.

STATUTORY REFERENCE:

Section 121.091(6) and (8), Florida Statutes

FRS RULE REFERENCE:

Sections 60S-4.010(8) and 4.011, Florida Administrative Code

⁶ See Page 9-41 for information regarding designation of beneficiaries under the FRS Investment Plan.

Joint Annuitants - Proof of Dependency

If the employee selects either Option 3 or 4 and designates someone other than a spouse or child under age 25 as beneficiary (joint annuitant), the division will need proof of the financial dependency or disability of that person before the employee's name can be added to the retired payroll.

For purposes of the FRS Pension Plan, a joint annuitant is a designated beneficiary who is eligible to receive a monthly lifetime retirement benefit upon the member's death. By law, to qualify as a joint annuitant under Option 3 or 4, the beneficiary must be:

- The spouse of the member;
- The member's natural or adopted child who is under age 25, or is physically or mentally disabled and incapable of self-support, regardless of age; or any person other than the spouse for whom the member is the legal guardian, provided that such person is under age 25 and is financially dependent for no less than one-half of support from the member at retirement or at the time of death of such member, whichever occurs first; or
- A parent or grandparent, or a person age 25 or older for whom the member is the legal guardian, provided that such parent, grandparent, or other person is financially dependent for no less than one-half of support from the member at retirement or at time of the death of such member, whichever occurs first.

To determine if the designated beneficiary qualifies as a financial dependent, the division will need the following:

- A certified copy of the employee's latest income tax return signed and filed with the Internal Revenue Service (IRS). This must be the complete return, including copies of Form W-2. The employee should contact the IRS for the correct procedure to obtain this certification.
- A certified copy of the beneficiary's latest income tax return, as signed and filed with the IRS. If the employee's beneficiary did not file a tax return, a notarized statement to that effect from the beneficiary is required.
- Additional documentation such as medical or institutional cost statements.
- Other proof as required by the division based on individual circumstances.

STATUTORY REFERENCE:

Section 121.021(28), Florida Statutes

FRS RULE REFERENCE:

Sections 60S-4.011 and 6.001(34), Florida Administrative Code

IX. FINAL SALARY CERTIFICATION

At the time of an employee's retirement, you are required to certify the last four months of salary earned prior to the termination of the employee. The salary certification should be submitted on [Form FC-1](#), Final Salary Certification (see note below). If a salary adjustment or correction is made after the form is submitted, you must submit an amended salary certification. You should not certify any payments on which retirement contributions are not required.

Annual Leave

Retirement contributions are due for lump sum payments for accumulated annual leave. Accumulated annual leave is leave accrued during the employee's career and which was intended but never utilized by the employee for personal use. General leave, which may be used for both sickness and vacation, is considered accumulated annual leave. When leave is initially accrued separately as annual leave or sick leave and later combined into a consolidated leave account, only the payment for that portion which represents annual leave shall be considered as compensation. Accumulated annual leave payments that may be included in the AFC are limited to a combined total of 500 hours. If a single lump sum payment exceeds 500 hours, only a maximum of 500 hours is to be certified and reported with retirement contributions. (Please see Chapter 2, Part I, section A, for additional information.)

Sick Leave

Lump-sum payments of accumulated sick leave are not considered to be compensation for retirement purposes and should not be certified on [Form FC-1](#).

Bonuses

Bonuses are payments made in addition to an employee's regular or overtime salary. These payments are usually non-recurring, do not increase the employee's base rate of pay, and do not carry with them a commitment for payment in future years. Bonuses are not considered compensation for retirement purposes and should not be reported for retirement. Therefore, bonuses should not be certified on [Form FC-1](#).

NOTE: For DROP participants, [Form FC-1](#) should certify any prorated deferred salary payment made prior to the DROP begin date. Certify all salaries earned prior to the DROP begin date.

STATUTORY REFERENCE:

Section 121.021(24), Florida Statutes

FRS RULE REFERENCE:

Section 60S-6.001(3) and (6), Florida Administrative Code

X. DEADLINE FOR ADDING MEMBER'S NAME TO RETIRED PAYROLL

To ensure that an employee's name is added to the retired payroll during the first month of retirement, all information and documentation regarding the employee's retirement account should be received in the division by the fifth day of the month containing the employee's effective retirement date. If all required information and documentation are not received early in the month, the employee may be added to the next retired payroll and the first month's benefit will be paid retroactively.

XI. CHANGES AFTER MEMBER'S NAME IS ADDED TO RETIRED PAYROLL

Once a benefit payment has been cashed or deposited, or the member begins participation in DROP, retirement is final. The option selection cannot be changed, no additional service credit can be added, the type of retirement cannot be changed and no election to the Investment Plan may be made. For more information, the employee should contact the Division of Retirement. You may call the division toll-free at 844-377-1888 or 850-907-6500, or email enrollment@dms.fl.gov.

STATUTORY REFERENCE:

Section 121.091, Florida Statutes

FRS RULE REFERENCE:

Section 60S-4.002(4), Florida Administrative Code

XII. MAXIMUM BENEFITS

FRS Maximum

Under Florida law (section 112.65, Florida Statutes), the initial retirement benefit payable under the FRS may not exceed 100 percent of the retiring employee's average final compensation.⁷

Federal Maximums

Since 1974, the Federal Government has limited the amount of retirement benefits retirees can receive per year under section 415 of the Internal Revenue Code. For information purposes, the 2021 calendar-year annual federal maximum benefit for a member age 62-65 who retires under Option 1, 3, or 4 is \$230,000 (Option 2 is slightly lower). This maximum is adjusted for age so that retirees younger than age 62 have a lower maximum, and those older than age 65 have a higher maximum.

Preservation of Benefits Plan

In 1998, Congress enacted legislation to permit governmental retirement plan to establish "excess benefit plans" for people who are adversely affected by the federal maximum benefit limit. As a result, in 1999, the Florida Legislature adopted the FRS Preservation of Benefits Plan (an excess benefits plan) to effectively eliminate the impact of the federal limit on FRS retirees. The division pays each affected retiree, by separate check, an amount equal to any reduction in benefits imposed by the federal limit. Therefore, any retiree affected by this federal maximum will be "made whole" by the excess benefit plan and will not suffer a reduction in benefits.

DROP and Federal Limits

Members who elect to participate in the Deferred Retirement Option Program (DROP) are not exempt from the maximum benefit limitations. However, the amount of the accumulated DROP at the time the member ceases DROP is amortized over the member's expected lifetime, in the manner required by the Internal Revenue Code, and the annualized value of the DROP account reduces the federal maximum annual benefit the member is entitled to receive. For example, if a member completed DROP at age 62 having accumulated a DROP amount that, amortized over the expected lifetime, would have an annualized value of \$10,000 a year, the federal maximum applicable to the normal FRS retirement benefit for that member would be \$220,000, rather than \$230,000.

FRS Benefits/Contributions are Primary

Since June 18, 1999, a member may receive more than one retirement benefit or pension from his employer based on the same period of service (a benefit based on the same service from a different employer's retirement system or plan is prohibited). However, if the member participates in any retirement plan maintained by his employer in addition to the FRS and Social Security, including a qualified pension plan, a qualified employee annuity plan, or a 403(b) annuity, federal limits may apply to the total amount of benefits and/or contributions payable under all plans except Social Security. FRS benefits and/or contributions are considered primary to any other plan.

STATUTORY REFERENCE: Sections 112.65, 121.091(1)(a), and 121.30(5), Florida Statutes

FRS RULE REFERENCE: Section 60S-4.002(3), Florida Administrative Code

⁷ Florida law also separately limits benefits paid under other public pension plans.

XIII. RETIREMENT ANNUITIES OFFERED BY PRIVATE COMPANIES

“Fifth Option” or “Pension Maximization” Plans

The division has seen an increase in the number of private insurance companies and financial and retirement planners encouraging members to purchase insurance policies (“pension maximization” or “fifth option” plans) that offer private insurance protection in the form of an annuity for a member’s spouse or loved one. Instead of retiring under Option 3 or 4, which provides a lifetime benefit to both the member and the joint annuitant with an annual COLA, under these plans, the member is encouraged to retire under Option 1, which provides the highest benefit but is paid to the member only during the member’s lifetime.

The plans referred to in this section should not be confused with any plans or programs offered under the FRS Investment Plan, which is administered by the State Board of Administration (SBA).

(See Page 9-37 for more details on the FRS Investment Plan)

Plans Not Supported by the Division

Many of these companies erroneously state or imply that they are associated with the FRS. Some agents may also claim that the division has sold or provided them the names and addresses of members so that the private companies can contact them. The division maintains individual addresses of active FRS members through the information provided on the reporting agencies’ monthly payroll reports for sending information to active FRS members. These records can be provided to the public or to private companies under a public records request except for those home addresses that are exempt from public records requests under Chapter 119, Florida Statutes. The division also keeps address information on retired FRS members and beneficiaries; however, their names and addresses are, by law, confidential and exempt from the Public Records Law and may not be provided in aggregate, compiled, or list form to any person other than a public agency engaged in official business.

The division has reservations about insurance and annuity programs marketed as an alternative to a continuing retirement benefit under the FRS. The division does not support nor endorse any such programs because they may encourage FRS members to select a retirement option contrary to their surviving spouses’ best financial interests.

Jane Bryant Quinn Article and Worksheet

On the next page is a copy of an article written on this subject by financial expert Jane Bryant Quinn, plus a worksheet designed to help employees determine whether it would be to their advantage to select an FRS joint and survivor option (Option 3 or 4) or a “pension maximization” product. The worksheet was prepared by John Allen, an attorney with the Colorado law firm of Allen-Warren, at the request of Ms. Quinn.

You may wish to make copies of this article available to your employees to use in making their own decisions about “pension maximization” or “fifth option” plans.

Watch the Numbers If You're Considering a Switch in Life Insurance

by
Jane Bryant Quinn

Some life insurance agents and financial planners are persuading couples to gamble with their security, especially the security of a dependent wife.

They don't tell you that you're gambling; the scheme is presented as safe and smart. But, as you'll see in the specific case history I present below, you may be misled by a sales pitch.

First a brief summary of what's going on:

There are generally two ways of taking your pension:

- The payments can last for your lifetime only. This choice yields a higher monthly income for as long as you live and nothing thereafter.
- The payments can stretch over the lifetimes of you and your spouse. "Joint-and-survivor" pension payments may be 25 to 40 percent lower. But if you die first, they guarantee your spouse a continuing income.

For a spouse's protection, joint pensions are the best. But insurance agents are pooh-poohing that idea. Instead, they're recommending the higher, single life pension. With part of that higher check, you buy a life insurance policy. If you die first, that policy funds an annuity for your spouse, to replace the lost pension. If your spouse dies first, you have a higher pension for the rest of your life.

A financial planner named David Trela, from The Eschels Financial Group in Southfield, Michigan wrote me a letter, urging that I write about this nifty idea. So I asked him for an illustration of an actual case. When I got it, I sent it for analysis to actuary James Hunt, a director of the National Insurance Consumer Organization. Here are the sad results:

Trela's customer, Mr. X, 62, is retiring from a Michigan public school district. His wife is 57. With a single-life pension, they'd get \$2,957 a month for as long as the husband lived and nothing after that. By contrast, with a joint-and-survivor pension, they'd get \$2,306 a month (\$1,660 after taxes) for as long as either one of them lived. That's a gross of \$651 a month less.

Trela told them to take the larger, single-life pension. For only \$585 a month, he said, they could buy a \$205,000 universal-life policy on the husband. If he died, the proceeds would buy an annuity paying the widow \$1,679 a month, almost exactly replacing the after-tax pension she gave up. What's more, Trela said, they'd have an extra \$66 a month to live on. Neat, right? Mr. and Mrs. X decided to buy.

Jim Hunt says they're being given wrong information. "In general, Eschels Financial uses tax implications when it helps and doesn't when it hurts," he says.

Trela told Mr. X that he could pay his \$585 life insurance premium from the \$651 a month that he gains from choosing the single-life pension. But that ignored taxes. The insurance actually costs Mr. X \$812 in pre-tax income. Result: as a couple, they'll have \$161 less to live on each month than if they had taken the joint-and-survivor pension.

Trela also did not show the taxes on the wife's annuity income, if she had to depend on it to replace her husband's pension. By Hunt's calculations, her after-tax income would be only \$1,372 a month. That's \$307 a month less than she would have gotten from the pension. So the plan makes this couple poorer, not richer.

In addition, Mrs. X's annuity income is fixed. If she kept her joint-survivor-pension, she would get a cost-of-living adjustment every year. The insurance proceeds would buy her a larger annuity each year she gets older, but generally not enough to beat the pension plan.

When I asked David Trela about these problems, he conceded that he had knowingly used pre-tax numbers. He agreed that the couple's income would not be as high as his fancy computer printout said. When I asked him why he'd done it, he said, "I don't have an answer for that." He denied that it had anything to do with making a sale or collecting a commission.

There may be a happy ending to this story. A subsequent letter from Mr. Trela concludes that "in this particular case the dollars-and-cents answer ... clearly favors the election of the survivor benefit through the pension plan." He says he is "trying to reach this client," to "re-explain the inaccuracies." Mr. X isn't retiring until June, so he has time to reconsider.

There are a very few circumstances where this insurance scheme might work. But in general, mistrust it. Never buy without taking the proposal to an accountant for an independent evaluation of whether the computer printout tells the truth.

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Pension Maximization: Will It Work For You?

When you retire, there are two general ways of taking your pension: (1) Lifetime only. You get a higher monthly income, but it stops when you die. (2) Joint-and-survivor. You get a lower monthly income, but it lasts for the lifetimes of you and your spouse. [The FRS offers another way to receive your pension, Option 2. This option pays a benefit to a designated beneficiary if you die within 120 months of your effective retirement date. This monthly benefit payment will be in the same amount as you were receiving for the balance of the 120-month period. No further benefits are then payable.]

A “pension max” salesperson will propose that you take the lifetime-only pension. To protect your spouse, you buy a life insurance policy. At your death, the proceeds of that policy can be used to provide your spouse with a lifetime income.

This plan is potentially workable if: (1) Your single-life pension after tax, and after paying the insurance premium, is greater than you would have received had you chosen the joint-and-survivor pension; and (2) after your death, the insurance proceeds are sufficient to buy your spouse a lifetime income at least equal to what the joint-and-survivor pension would have paid.

Does your proposed plan meet these two tests if you are just starting your retirement? This worksheet will tell you. You and the salesperson should fill in the following blanks:

Have You Really Maximized Your Pension?

1. Your monthly pension, if paid for your life only. \$ _____
2. Your monthly pension after all taxes.** \$ _____
3. Your monthly pension if you take a joint-and-survivor option. \$ _____
4. That same pension after all taxes.** \$ _____
5. Your spouse’s monthly pension after your death, if you take the joint-and-survivor option.
(This may or may not be the amount you reported on line 3.) \$ _____
6. This same pension after all taxes.** \$ _____
7. The midpoint between lines 5 and 6. Use this as a first rough target for figuring how much insurance to buy if you choose pension maximization.*** \$ _____
8. The cost of buying your spouse an annuity after your death, figured for your spouse’s age when you retire.*** The “annuity rate” tells you, in dollars and cents, how much monthly income can be bought for every \$1,000 of life insurance proceeds. Age: _____
Annuity Rate: \$ _____
9. The life insurance proceeds needed to provide the monthly income. To calculate this, divide the target income (line 7) by the annuity rate (on line 8) and multiply by 1,000. \$ _____
10. Monthly life insurance premium required to secure proceeds shown above. \$ _____

Compare this with the income you’d get from a joint-and-survivor pension, after tax. If your income after pension max leaves you with less disposable income than you’d get from a joint-and-survivor pension, stop here. It usually makes no sense to use it. If pension max provides you with more income as a couple, continue the calculation to see if it protects your spouse.

HAVE YOU LEFT A LARGE ENOUGH ANNUITY FOR YOUR SPOUSE?

11. Your spouse's life expectancy, based on age when you retire.**** The number comes from an IRS table, and is called the Expected Return Multiple. _____
12. The portion of the spouse's annuity income that will be excluded from income taxes. This is called the Exclusion Ratio.***** Carry it to three decimal places. _____
13. Subtract the Exclusion Ratio from 1.000. _____
14. Enter the monthly income you targeted, from line 7. \$ _____
15. Multiply line 15 by line 14. This tells you how much of the spouse's annuity income is subject to tax. \$ _____
16. Subtract income taxes** from the spouse's annuity income and enter that income after tax. \$ _____
17. Enter actual amount of net spousal income you need to protect (line 6). \$ _____

If line 17 is larger than line 16, you need more insurance. Redo the calculation, using a larger insurance amount.
If line 17 is less than line 16, you could buy a smaller insurance policy.

If you start pension maximization earlier than retirement, you'll also need a present-value analysis. This analysis recognizes that \$1,000 spent on insurance today is worth much more than \$1,000 received in higher pension benefits 10 years from now. A present-value analysis tells you whether those extra pension benefits are worth their cost. Don't buy from an insurance agent or planner who won't (or can't) do this calculation for you.

This worksheet does not consider the value of pensions with cost-of-living adjustments. But you can take a stab at it by estimating what your pension will be in five, 10, and 20 years, and using this sheet to see if the life insurance will indeed supply a comparable pension for your spouse.

All pension-max proposals with cost-of-living adjustments should be presented with a present-value analysis. So should any proposal where insurance premiums or death benefits vary.

- * This worksheet is not effective for plans started before retirement. For such plans, the salesperson should compare the cost of the insurance premium with the after-tax pension benefits expected, adjusting for the fact that costs come now and benefits, later.
- ** Federal, state and local. Do the exact calculation. Don't just estimate the bracket.
- *** A good professional planner will be able to target this exactly.
- **** For safety, refigure for five, 10, and 20 years ahead. Each year the spouse lives, the life expectancy improves.
- ***** To get the Exclusion Ratio: Multiply the spouse's monthly annuity income by 12. Multiply the result by the Expected Return Multiple (line 12). Divide the result into the proceeds of the life insurance policy.

Worksheet prepared by John Allen JD, Allen-Warren, P.O. Box 740035, Arvada, Colorado 80006.
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What Are the Risks of Choosing Pension Maximization⁸?

- Since the retirement benefit is annually adjusted under the FRS Pension Plan to help protect the benefit against inflation, the member would need to purchase a much larger amount of insurance (or a rising amount of insurance) to provide the spouse with a comparable lifetime income.
- If a member buys a universal-life policy or an interest-sensitive whole-life policy, and interest rates decline, the member might have to pay a higher insurance premium or accept a lower death benefit. The member should ask the agent to demonstrate what happens to the pension-max plan if interest rates drop.
- If a member buys a policy with a “vanishing premium”, hoping to pay premiums for a limited number of years, and interest rates fall, the member will pay premiums for a longer time.
- Between the time the policy is activated and the time of the member’s death, annuity rates can (and usually will) change. The policy proceeds may not be enough for the member’s spouse to buy an annuity that will afford him/her the income originally planned for.
- Inflation or unexpected expenses could erode the member’s income. If the member becomes unable to afford the life insurance premium and has to cancel the policy, the spouse will lose the income protection the policy was intended to provide.
- If a premium payment is late or lost, the member’s insurance could lapse, leaving the spouse without income protection.
- The “owner” of the policy may at any time cancel the policy or change the beneficiary. Thus, if the member’s spouse is the policy “owner,” the member could be left without a benefit.
- With private insurance, the company could fail as a result of economic conditions or the actions of its managers, which could jeopardize the payment of future benefits under the plan.
- Both the member and the spouse or other financial dependent may receive health insurance subsidy payments from the pension plan that would be discontinued when the member dies⁹.
- The spouse’s money could run out if the life insurance proceeds are not used to buy a lifetime annuity. But choice of an annuity means that the member won’t have a lump sum of money for any heirs. Both goals, a legacy and lifetime spousal income, cannot be guaranteed.

NOTE: If a member chooses a pension maximization plan at retirement, the member should make sure the life insurance plan has been approved and is in full force before the FRS benefit is paid. Once an FRS benefit payment is cashed or deposited, the member’s option selection cannot be changed. It could be disastrous for a member to cash an Option 1 FRS benefit payment and then discover that the member has been turned down for the alternative plan’s life insurance policy.

⁸ List of risks based on list created by John Allen JD, Allen-Warren, P.O. Box 740035, Arvada, Colorado 80006.

⁹ The FRS pays a health insurance subsidy (HIS) to eligible retirees or beneficiaries with health insurance coverage. The surviving spouse or dependent is not eligible to continue receiving the monthly HIS payments after the member’s death if the member retires under Option 1. Similarly, if the member retires under Option 2, the HIS payment is guaranteed payable to the member’s beneficiary only for the first 10 years of retirement.

Here Are the Potential Advantages of Pension Maximization¹⁰:

- If the member's spouse dies first, the insurance can be canceled, leaving the member with more disposable income.
- If the member decides to continue the insurance after the spouse dies, a larger estate may be left to any heirs (although if leaving a larger estate is important to the member, the member can carry extra life insurance without taking the pension-max approach).
- If the member divorces, the policyholder could cancel the policy (although the divorce settlement could require that the policy be kept in force).
- If the member and the spouse were to live for many years, the member could withdraw some cash from the policy. By doing so, the member would shrink the death benefit available for the spouse. But at later ages, less money may be needed to provide the spouse with a lifetime income.

¹⁰ List of advantages based on list created by John Allen JD, Allen-Warren, P.O. Box 740035, Arvada, Colorado 80006.

XIV. DEFERRED RETIREMENT OPTION PROGRAM (DROP)

Eligible members of the FRS, the Teachers' Retirement System (TRS) and the State and County Officers and Employees' Retirement System (SCOERS) may choose to participate in the FRS Deferred Retirement Option Program (DROP) for up to 60 months.¹¹

General Description

This program allows a member to retire and continue working, drawing both salary and retirement benefits while in the program. Instead of paying the monthly retirement benefit directly to the member or depositing in a bank account, while the member is in DROP, the benefit payment is credited to the member's individual DROP account, where it will earn tax deferred interest, compounded monthly at an effective annual rate of 1.3 percent for members whose DROP begin date is on or after July 1, 2011¹².

The DROP participant continues to work up to the date preselected to stop participation in DROP. When the DROP period ends, employment must be terminated. At that time, the member will receive distribution of the accumulated DROP benefits, and will begin directly receiving the FRS monthly retirement benefit (in the same amount as determined at retirement and entry into DROP, plus applicable cost-of-living adjustments). (See Page 9-29 for discussion of special provisions allowing certain members to extend their DROP participation beyond 60 months. See Page 9-31 and Chapter 13, Part III, section C, for discussion of special termination and reemployment provisions applicable to elected officers.)

Employment Status while in DROP

A DROP participant is considered a retiree for benefit accrual purposes under the FRS. However, participation in DROP does not alter the participant's employment status and, for such purpose, the DROP participant will have the same employment status as nonretired members in covered employment until termination occurs. Terms and conditions of employment (salary, insurance coverage, leave accrual, seniority, being subject to layoff or termination, etc.) do not change as a result of DROP participation.

Eligibility for DROP

A vested FRS, TRS, or SCOERS member may elect to participate in DROP for a maximum of 60 months¹³ following the date on which the member first reaches normal retirement date (including members who are on a leave of absence or on workers' compensation). While a member may apply for DROP up to six months before reaching the normal retirement date or DROP deferral date, unless eligible to defer the election as described in the next section, the member must elect to participate in DROP within 12 months of first reaching the normal retirement date.

¹¹ Certain members are able to extend their DROP participation for up to an additional 36 months (see Page 9-29).

¹² For DROP participants whose begin date is before July 1, 2011, the member's individual DROP account earned tax deferred interest, compounded monthly at an effective annual rate of 6.5 percent.

¹³ Certain K-12 instructional members are able to extend their DROP participation for up to an additional 36 months (see Page 9-29).

DROP participation is not allowed for any member who previously retired under the FRS, TRS, or SCOERS and has since become reemployed in a covered FRS position as a “renewed” member.¹⁴ Participation is also not allowed for employees in the FRS Investment Plan, State University System Optional Retirement Program (SUSORP), State Community College System Optional Retirement Program (SCCSORP), or Senior Management Service Optional Annuity Program (SMSOAP). Local agency senior managers and members of the Elected Officers' Class who have withdrawn from the FRS are also ineligible to participate in DROP.

A member who has reached normal retirement date may be able to defer DROP election as described below if the member meets one of the following criteria:

Deferring DROP entry

Any member designated and certified by the employing agency as “instructional personnel” as defined in section. 1012.01(2), Florida Statutes¹⁵, may indefinitely postpone the DROP election. These members may elect to enter DROP at any time after reaching their normal retirement date and may participate in DROP for a full 60 months, regardless of the date they begin DROP.

- A member who is initially enrolled before July 1, 2011, and who reaches normal retirement date based on years of service before age 57 (or age 52 for special risk members) may defer DROP election. The member may elect to enter DROP anytime from the initial eligibility date through the month the member attains age 57 (or age 52 for special risk members) and participate for a full 60 months. (The member could also make the deferred DROP election at any time during the 12 months after the month in which the member reaches age 57 (or age 52 for special risk members), but the participation period would be shortened accordingly.)
- A member who is initially enrolled on or after July 1, 2011, and who reaches normal retirement date based on years of service before age 60 (or age 55 for special risk members) may defer DROP election. The member may elect to enter DROP anytime from the member’s initial eligibility date through the month the member attains age 60 (or age 55 for special risk members) and participate for a full 60 months. (The member could also make the deferred DROP election at any time during the 12 months after the month in which the member reaches age 60 (or age 55 for special risk members), but the DROP participation period would be shortened accordingly.)

¹⁴ Reemployed retirees eligible for renewed membership are not eligible to participate in DROP.

¹⁵ This definition includes classroom teachers, staff members responsible for student personnel services, staff members responsible for providing school library media services, other instructional staff, and educational paraprofessionals.

- When determining DROP eligibility and/or the maximum participation period, a member may choose to include or exclude any optional service credit purchased by the member or the employer from the total service used to establish the normal retirement date.¹⁶ Optional service includes all creditable service for which the member chooses to purchase/claim retirement credit. It may include prior service, optional past service, wartime military service, a military leave of absence taken before December 3, 1974, a leave of absence without pay, in/out-of-state service, a suspension without pay, teaching in a federally operated school in Florida, and periods of disability retirement. Workers' compensation credit, non-optional past service credit, and employer-purchased credit for a military leave-of-absence on or after December 3, 1974, do not count as optional service credit. Upgraded service credit is not considered optional service credit for determining DROP eligibility.
- A member with dual normal retirement dates, resulting from an employment history in two different classes of membership with different retirement date and age requirements, may elect to participate in DROP within 12 months after attaining normal retirement date in either class.
- An elected officer who reaches normal retirement date while serving a term of office (including an elected officer who is not a member of the EOC) may defer DROP participation until the next term in such office. The officer must elect to participate in DROP the succeeding term and may only participate for up to 60 months or until the end of the term, whichever is less.

Enrolling in DROP

Key procedures for a member to enroll in DROP:

- Eligible employee compares benefit estimates with and without DROP participation and decides to elect DROP participation.
- Employee and employer complete and submit two forms, [Form DP-ELE](#) and [Form DP-11](#), described below, to the division.
- To make an option selection, the member must complete [Form FRS-11o](#), and [Form SA-1](#) (supplied along with [Form DP-11](#)).
- Employee should be reported on your monthly retirement report under Plan DP, DR, DS, or DT beginning with the selected month of DROP enrollment.

¹⁶ For example, in establishing eligibility for DROP, a member with 30 years of service that includes two years of purchased optional service credit could elect to join DROP immediately (by opting to include the optional service) or could wait up to two years to join DROP (by choosing to exclude the optional service). Whether included or excluded for purposes of the DROP election, the purchased optional service credit will always be used in the member's benefit calculation.

[Form DP-ELE](#), Notice of Election to Participate in the DROP and Resignation of Employment, must be submitted to the division no later than 11 months following the date on which the member first reaches normal retirement date (unless the member is eligible to defer the DROP participation date¹⁷) and no earlier than six months before the member's anticipated DROP begin date. The member must indicate the starting and ending date of DROP participation, acknowledged by the employer. To participate in DROP for the full 60 months¹⁸, the member must file this form together with [Form DP-11](#), Application for Service Retirement and the DROP, no later than the end of the month the member reaches the normal retirement date or DROP deferral date. Any member who fails to complete and submit [Form DP-ELE](#) within 12 months of first reaching the normal retirement date or DROP deferral date will be ineligible for DROP participation.

[Form DP-11](#), Application for Service Retirement and the DROP, establishes the effective date of retirement and beginning DROP participation date. This application may be filed up to six months in advance of the member's intended date to begin DROP. To retain the desired retirement and DROP begin dates, the division must receive [Form DP-11](#) no later than the close of business on the last day of the month in which the desired DROP effective date falls. If the form is received after the end of said month, the effective date of retirement and DROP begin date can be no earlier than the first of the month in which [Form DP-11](#) is received. The form requires the member to name a beneficiary, provide required birth date verification, and establish dates of DROP participation.

To make an option selection, the member must complete [Form FRS-11o](#) and [Form SA-1](#) (supplied along with the [Form DP-11](#)).

DROP Participation Period

DROP participation will continue for the acknowledged period indicated on [Form DP-11](#) unless:

- The employee terminates or is terminated earlier than originally stated.
- The employee, with the employer's approval, expands DROP participation past the originally selected termination date but still within the 60-month limitation period (e.g., member signs up for 36 months of DROP and later expands it to 60 months with the employer's approval). The division must receive a revised [Form DP-ELE](#), signed by both the employee and employer, verifying this change. The member may not participate beyond the initial 60-month eligibility period, unless eligible for and obtains an extension as described on Page 9-29).

Beneficiary Designation

[Form DP-11](#) requires each member electing to participate in DROP to name one or more beneficiaries to receive any continuing retirement benefits or DROP benefits payable if the participant dies. The beneficiary or beneficiaries designated to receive continuing retirement benefits must be the same beneficiary as is named to receive the DROP benefits. If the DROP participant's designated beneficiary dies while the participant is in DROP, the DROP participant may name a new beneficiary as follows:

1. If the participant retired under benefit payment Option 1 or 2, a new beneficiary may be named on [Form FST-12](#), Beneficiary Designation for Retired Members, who will then be eligible for both the DROP benefits and any continuing FRS benefits; or

¹⁷ For more on DROP deferral, see Page 9-24.

¹⁸ Certain members are able to extend their DROP participation for up to an additional 36 months (see Page 9-29).

2. If the participant retired under Option 3 or 4, a new qualified joint annuitant may be named on Form JA-1, Change of Joint Annuitant Form, who will then be eligible for both the DROP benefits and continuing monthly FRS benefits; or name a beneficiary who may or may not be qualified as a joint annuitant on [Form FST-12](#), Beneficiary Designation for Retired Members, to receive only the DROP benefits. (Note that Option 4 benefits accumulating in DROP are reduced upon the death of the beneficiary and benefits under Option 3 or 4 are recalculated when a new joint annuitant is named.)

Payment for Annual Leave

Every member who elects to participate in DROP, and who is eligible to receive a terminal payment for unused annual leave earned according to agency policy, may choose to receive the lump sum terminal payment at either the beginning or the end of the DROP period. If the member elects to take the leave payment at the beginning of DROP, the payment amount for up to 500 hours of leave will be reported as compensation earned in that fiscal year and may be used in the calculation of the retirement benefit.¹⁹ In this case, the lump sum payment is based on the hourly wage of the participant at the time DROP participation begins. If the participant elects instead to wait and receive a lump sum leave payment when terminating employment at the end of DROP, the terminal leave payment will be based on the hourly wage of the participant at termination of employment (which may be higher), but the payment does not affect the member's benefit (which was determined and fixed by law when the participant elected to retire and begin DROP).

A participant who elects to receive the terminal annual leave payment at the beginning of DROP may be eligible to also receive a second lump sum leave payment upon termination of DROP. For such a second payment to be made, the member must have additional annual leave which, when combined with the leave represented by the original payment, does not exceed any applicable limit on payment of terminal leave as established by law or by employer policy or rules.

NOTE: Limits on terminal leave payments as described in this section apply to payments reported to the division for retirement purposes only, and do not affect employer policies governing payment for accumulated unused leave, generally.

Deferred Pay (Contract Salary Paid over a 12-Month Period)

For a member's deferred pay to be used in the calculation of the Average Final Compensation (AFC), the agency must prorate the deferred payment for the year and pay the member when the member enters DROP. This payment must be reported in the month it is paid to the employee. The remaining portion of the deferred pay should be reported with the June report under the appropriate DROP plan. If the agency elects not to pay the prorated portion of the deferred salary before DROP participation begins, it will not be used in the calculation of the member's AFC. (See Chapter 3, Part VII, concerning reporting of contract salary paid over a 12-month period, for more information.)

¹⁹ A member's benefit is the product of the member's years of creditable service, percentage value for each year, and average final compensation. If the AFC includes the year in which the terminal leave payment is made, the retirement benefit will be improved as a result of the leave payment.

Changing Jobs or Employers

A DROP participant may change jobs or have more than one FRS employer while in DROP, as long as a break in service does not occur (i.e., where no salary is reported during a month). If a break in service does occur, DROP participation will cease. A month in which no salary is paid but the employer-employee relationship continues (e.g., leave of absence without pay or workers' compensation leave) does not constitute a break in service. The employer must verify that the participant is still employed. If the participant is employed by two employers upon beginning DROP, both employers must submit both [Form DP-11](#) and [Form DP-ELE](#). A change of employer or addition of a new employer after commencement of DROP only requires the new employer to submit [Form DP-ELE](#) ([Form DP-11](#) is not required). The new employer must acknowledge on [Form DP-ELE](#) the participant's DROP termination date and acknowledge liability for any additional retirement contributions and interest that may be required if the participant fails to timely terminate employment. The last employer must pay required contributions to reestablish service credit for the period of DROP participation.

Changes Restricted after Entering DROP

After the first month of participation, a DROP participant cannot add additional service, change benefit payment options, change the DROP begin date, or change the type of retirement (e.g., from service retirement to disability retirement).

Contributions

Employer DROP and health insurance subsidy (HIS) contributions are due for DROP participants beginning the first day of the month of DROP participation (see Chapter 2, Part II, for the applicable contribution rates). DROP participants are not required to pay employee contributions. The participant should be reported on your monthly retirement report under Plan DP for FRS members, Plan DR for SCOERS Plan A members, Plan DS for SCOERS Plan B members, or Plan DT for TRS members. Elected officials who began DROP on or after July 1, 2002, and remained in office after their maximum DROP participation period concluded should be reported under Plan DE, DF, DG, or DH (for HIS and UAL contributions only)²⁰. All salary earned through the end of the month prior to DROP participation must be reported using the appropriate plan code and contribution rate for the class of membership. Salaries of employees on weekly or biweekly payrolls must be split to reflect the change to the DROP contribution rate as of the first day of the month of DROP participation. (See Chapter 3, Part IX, for more information.)

²⁰ See Chapter 3, Part II, Rate Chart 10, for more about reporting HIS contributions under these plan codes.

Extending DROP beyond 60 Months

The following DROP participants may be approved to extend their participation in DROP for up to 36 months beyond the 60-month maximum participation period (no more than 96 months total):

- Participants employed by a district school board as “instructional personnel” in grades K-12. This includes classroom teachers; student personnel services staff such as guidance counselors, social workers and school psychologists; librarians and media specialists; and other instructional staff such as primary specialists, learning resource specialists, instructional trainers, adjunct educators, and similar positions [see section 1012.01(2)(a)-(d), Florida Statutes, for definition].
- Participants employed by the Florida School for the Deaf and the Blind on an annual contractual basis as instructional personnel.
- Participants who are employed by developmental research schools (or “lab schools”) as instructional personnel as defined in section 1012.01(2)(a)-(d), Florida Statutes.

To extend DROP participation: An eligible DROP participant employed by a district school board must receive authorization from the district school superintendent; an eligible DROP participant employed by the Florida School for the Deaf and the Blind must receive authorization of the Board of Trustees for that school; and an eligible DROP participant who is employed by a developmental research school must obtain authorization from the school’s director, or the school’s principal if there is no director, and must also obtain approval by the division.

By authorizing an employee to extend DROP participation for up to 36 months beyond the initial 60-month DROP period, the employer is certifying that the employee is employed on an annual contractual basis and is filling a position eligible for extension as required by law. The participant must remain employed in a position eligible for DROP extension for the entire extended DROP participation. Such extension may be granted for the entire 36-month period or on a year-by-year basis, at the employer’s discretion.

To extend DROP participation, the eligible employee must submit a separate form, [Form DP-EXT](#), Extension of Deferred Retirement Option Program (DROP) For Specified K-12 Instructional Personnel, to the division. This form may be submitted as early as six months before the 60th month of the initial DROP period, but must be received before the employee’s termination date as established for the initial 60-month DROP participation period.

The applicant will receive confirmation from the division when the application to extend DROP participation has been received and approved.

NOTE: Do not confuse this type of extension with an extension of the DROP end date past the originally selected termination date, but still within the 60-month eligibility period, as described on Page 9-26).

Effective July 1, 2018, K-12 instructional personnel who are authorized to extend DROP participation beyond the 60-month period must have a termination date that is the last month of the school year. If on July 1, 2018, the member’s DROP participation has already been extended for the maximum 36 months and the extension period concludes before the end of the school year, the member’s DROP participation may be extended through the last month of the school year. The employer is required to notify the Division of Retirement when these eligible personnel have their termination date changed to comply with this provision.

Effective July 1, 2018, K-12 administrative personnel as defined in section 1012.01(3), Florida Statutes, who have a DROP termination date on or after July 1, 2018, may be authorized to extend their DROP participation beyond the initial 60 calendar month period if their termination date is before the end of the school year. Such administrative personnel may have their DROP participation extended until the last month of the school year. The employer is required to notify the Division of Retirement when these eligible personnel have their termination date changed to comply with this provision.

Changing Jobs while in Extended DROP

To change jobs while in a period of DROP extension, the employee must remain employed in an eligible position with an eligible employer to continue DROP participation. Similar to changes of employment during the first 60 months of DROP, the change must take place without a break in service. If the job is with a new employer, the new employer must approve the extension.²¹ All DP-EXT forms are subject to division approval. Any member who moves to an ineligible position must either terminate employment and DROP or void retirement, forfeit all DROP accumulations, and reestablish membership in the FRS Pension Plan (see description following).

Terminating DROP (Nonelected Members²²)

Nonelected members²² in DROP must terminate employment by the date specified on the [Form DP-ELE](#) unless the DROP period is extended as provided on Page 9-26 or Page 9-29. If an employee works beyond the specified termination date, the employee should complete and submit Form DP-VOID, certified by the employer, before the preselected resignation date to advise the division of the resignation rescission and continued employment, at which point:

- The employee's retirement and DROP participation are voided.
- The employee forfeits all DROP accumulations, as well as any monthly benefits the employee may have received.
- Membership in the retirement plan will be retroactively reestablished back to the date the member started DROP.
- The employer at that time must pay or receive a refund of the difference²³ between the total retirement contribution rate, including required employee contributions, owed to retroactively establish service credit under the employee's class of membership and the DROP contribution rate, plus interest (no interest is paid on refunds).

The division will notify DROP participants three months prior to their DROP termination date of their upcoming termination date and will send them the following forms: Form DP-TERM, DROP Termination Notification, and Form DP-PAYT, DROP Selected Payout Method.

²¹ A new [Form DP-EXT](#), signed by the new employer, must be submitted and received by the division no later than the last working day of the month in which the new employment commenced.

²² For purposes of this section, "nonelected member" means a DROP participant who, at the conclusion of the DROP period, is not filling an elective or appointed position.

²³ In the case of a job change while in DROP from one eligible employer to another, the new employer is liable for all retroactive retirement contributions due and the previous employer is eligible for all refunds of retirement contributions. A former DROP participant who violates the reemployment provisions during the second through twelfth months will, along with his employer, be jointly and severally liable to pay back the monthly retirement benefits paid subsequent to DROP.

Termination Notice Required

Both the employee and employer must sign Form DP-TERM, verifying that termination has occurred or will occur. The payment of monthly benefits will not occur until after the division receives Form DP-TERM and termination of employment has occurred. The DROP balance will not be distributed until after employment has terminated and the division receives Form DP-PAYT.

Terminating DROP (Elected Officers)

An elected member²⁴ participating in DROP must terminate employment by the date specified on the [Form DP-ELE](#) unless the DROP period is extended as provided on Page 9-26 or Page 9-29*, except as described below:

Elected Members Starting DROP

DROP participants who begin their participation on or after July 1, 2002²⁵, and who hold an elective office may end their DROP participation and remain in office without terminating employment until the end of the current term of office or until they no longer continuously hold an elective office eligible for coverage under the FRS. During this time of continued elective service, the officer is not considered an active member of the retirement system. No additional monthly benefits accrue in the affected officer's DROP account (which continues to earn interest compounded monthly if DROP participation began before July 1, 2010); no DROP distribution is made and no monthly benefits are paid to the affected officer; no additional retirement credit is earned; and no contributions other than HIS and UAL contributions are required of the employer. Upon termination of the elective office, the member's DROP balance, including any earned interest, will be distributed and the retired member will also begin receiving monthly retirement benefits directly, including any applicable cost-of-living adjustments. Thereafter, the retired member is subject to all applicable post-retirement reemployment limitations and renewed membership provisions (see Chapter 13, Parts III and IV).

It is important for these elected members to note that:

- Monthly benefits will not be paid to any member until after the division receives Form DP-TERM and termination of employment has occurred²⁶.
- The DROP balance will not be distributed to any member until after employment has terminated and the division receives Form DP-PAYT.

Termination Notice Required

It is the responsibility of an affected elected officer to notify the division of the termination, regardless of the dates of DROP participation. Both the officer and the employer must sign Form DP-TERM, verifying that termination of employment has occurred or will occur at a specified time.

²⁴ For purposes of this section, "elected member" means a DROP participant who, at the conclusion of the DROP period, is filling an elective or appointed position.

²⁵ DROP participants in an elective or appointed position before July 1, 2002, could end their DROP participation without terminating employment and were enrolled as renewed members beginning in the calendar month following the end of DROP participation.

²⁶ Prior to July 1, 2002, elected officers participating in DROP upon termination were exempt from the definition of termination and reemployment restrictions.

Distribution to the DROP Participant

A DROP participant must notify the division on Form DP-PAYT of the method of payment desired from the DROP account: Lump sum, direct rollover, or combined partial lump sum and rollover.

A direct rollover must be paid directly to the custodian of an eligible retirement plan as defined in section 402(c)(8)(B), IRC. Eligible retirement plans include:

- An Individual Retirement Account (IRA) as described in section 408(a), IRC, which includes a non-designated ROTH IRA.
- An Individual Retirement Annuity as described in section 408(b), IRC – an annuity set up by an insurance company (does not include an endowment contract).
- A Qualified Trust – a stock bonus, pension, or profit sharing plan of an employer (both defined contribution and defined benefits plans) established in accordance with section 401(a), 401(k), or 403(b), IRC, for the sole and exclusive benefit of employees or their beneficiaries. This includes a rollover or direct trustee-to-trustee transfer to an account under the FRS Investment Plan as provided under section 121.4501(21), Florida Statutes (see Page 9-38 for more information).
- An Annuity Plan as described in section 403(a), IRC – the definition of a qualified annuity plan – or as described in section 403(b), IRC – an annuity purchased by an organization or a public school under section 501(c)(3), IRC.
- An Eligible Deferred Compensation Plan as defined in section 457(b), IRC.

Distribution to a Surviving Spouse or Other Beneficiary

If the DROP participant dies while in DROP, the surviving beneficiary must submit the appropriate form or forms to receive DROP benefits:

- If the surviving beneficiary is the DROP participant's spouse²⁷ or alternate payee as described in Chapter 12, Part VI, Form DROLL, the Beneficiary Direct Rollover Election Form, must be submitted. The beneficiary may choose to roll over all or a portion of the proceeds of the DROP account. However, in that event, the account proceeds must be rolled into an eligible plan as described in section 402(c)(9), IRC.²⁸
- If the surviving DROP beneficiary is neither the spouse nor alternate payee, the DROP accumulation may only be paid as a lump-sum distribution. To receive such benefits, the beneficiary must complete and submit Form FST-11g, Florida Retirement System Pension Plan Application of Beneficiary for Benefit Payment.

Failure to Elect a Method of Payment

Any DROP participant or beneficiary who submits all required forms, however fails to elect a method of payment within 60 days of termination or death, will automatically receive a lump sum distribution, less applicable taxes.

²⁷ To receive this distribution, the spouse must be the member's designated beneficiary.

²⁸ Under section 402(c)(9), IRC: "If any distribution attributable to an employee is paid to the spouse of the employee after the employee's death, the preceding provisions of this subsection shall apply to such distribution in the same manner as if the spouse were the employee."

After-Tax Employee Contributions

The portion of each monthly benefit funded by after-tax employee contributions and accumulated in the DROP account will be paid to the DROP participant as a tax-free, lump sum payment (calculated using the Simplified General Rule²⁹).

Taxes

The tax consequences that apply to distribution of DROP assets are outlined in the following chart and examples:

Payout Method	Taxes Due at Conclusion of DROP	Taxes Due Later
1. DROP assets rolled over to eligible retirement plan (also see 4 below). Example: Joe Smith elects to have his \$100,000 of DROP assets rolled over to his Individual Retirement Account (IRA). Joe is not taxed on this income until he starts withdrawing it from his IRA. If he withdraws \$200 a month (\$2,400 for the year), he will owe taxes of \$360 (assuming a 15 percent tax bracket).	No taxes withheld.	Taxes due when withdrawn from eligible retirement plan.
2. DROP assets received as lump sum (also see 4 below). Example: Mary Jones elects to receive her \$100,000 of DROP assets in a lump sum. The division will automatically withhold 20 percent of this amount (as required by federal law). When Mary files her income taxes for that year, she would report the lump-sum amount paid, plus the credit for the 20 percent tax already withheld (these amounts will be reported to her on Form 1099-R provided by the division). Since she is in the 28 percent tax bracket, she would owe an additional 8 percent tax or \$8,000, effectively reducing her lump-sum benefit from \$100,000 to \$72,000.	Taxes withheld at 20 percent in year received.	Additional taxes may be due if employee in higher tax bracket.
3. DROP assets received as partial lump sum and partial rollover.	The lump sum or rollover will be taxed according to items 1 and 2, or item 4, as applicable.	The lump sum or rollover will be taxed according to items 1 and 2, or item 4, as applicable.
4. DROP assets received as lump sum or rollover, where member previously made after-tax (employee) contributions. Example: Tom Henry had after-tax employee contributions of \$20,000 on deposit when he retired, on which amount income taxes had already been paid. If he elects to receive his \$100,000 in DROP assets in a lump sum, the division will apply the Internal Revenue Service's Simplified General Method ²⁹ to determine how much of his DROP assets can be distributed directly to him with no taxes withheld. If the division calculates this amount to be \$5,000 for the five years he participated in DROP, then Tom would receive a lump sum of \$5,000, with no additional taxes due either now or later on this money. This \$5,000 cannot be rolled over to an eligible pre-tax retirement plan, according to Internal Revenue Code regulations. The remaining \$95,000 will be treated as a regular lump-sum payment (see example 2), or could be rolled over as described in example 1, or distributed in combination. NOTE: A portion of the monthly retirement benefit Tom would begin to receive after concluding DROP would be tax-free due to the application of the Simplified General Method ²⁹ (remains tax free for the period specified in the Simplified General Rule).	No taxes withheld.	Already paid.

NOTE: DROP complies with all provisions of the Internal Revenue Code (IRC) and the division must administer the program accordingly. Various provisions of the IRC, including maximum benefit limitations, may apply to certain individuals, and payouts and monthly retirement benefits would be affected accordingly.

²⁹ For more on the Simplified General Method, see IRS Publication 575, Pension and Annuity Income, available at [IRS.gov](https://www.irs.gov).

Federal Maximum Benefits

Benefits accumulating in the DROP are not subject to federal benefit limitations³⁰ until DROP ends and the participant begins receiving monthly retirement benefits. At that time, the value of the DROP accumulation will be divided by the number of years in the participant's expected lifetime, in the manner required by the Internal Revenue Code, to create an annualized value. This annualized value will reduce the federal maximum benefit the participant is allowed to receive each year based upon the age at the time DROP participation ends. For example, if a member completes DROP at age 62 having accumulated an amount in the DROP account which, amortized over the member's expected lifetime, would have an annualized value of \$10,000 a year, the federal maximum applicable to the normal FRS benefit for that member would be \$220,000, rather than \$230,000 (based on 2021 limits³⁰). This provision will affect very few members. The division will notify a participant if benefits are expected to exceed the federal maximum.

IRS W-2 Form - Designation of DROP Participants, Elected Officials Deferring DROP Termination, and Reemployed Retirees Without Renewed Membership

A DROP participant is retired and, while in DROP, is not eligible to participate in the FRS as an active or renewed member. Elected officials who are deferring DROP termination and reemployed retirees without renewed membership also are not eligible to participate in the FRS or other state-administered retirement program. Therefore, for the tax year, employers should not check the "Pension Plan" box (section 13) on the IRS W-2 Form, unless one of these individuals has participated in any of the following retirement plans at any time during the FRS plan year: A qualified pension plan (which includes the FRS); a profit-sharing, stock bonus, money purchase, Keogh, 401(k), union, or qualified annuity plan; a plan established by the United States, a state, or a political subdivision thereof, or by an agency or instrumentality of any of the foregoing, for its employees; or a 403(b) plan, SEP, 501(c)(18) trust, or SIMPLE plan.

Reemployment Limits after DROP Concludes

At the conclusion of DROP, the same reemployment restrictions and exceptions that apply to FRS retirees who did not participate in DROP will apply to DROP retirees³¹ (see Chapter 13, Part III). If an FRS employer reemploys a DROP retiree who has not met the definition of termination after the conclusion of the DROP period, the DROP retiree will void retirement which includes both retirement and DROP participation. The retiree must repay all DROP and monthly retirement benefits received, and the employer who reemployed such retiree is liable for the retroactive contributions that are required to reestablish retirement membership, plus interest.

³⁰ For more on federal benefit limits, see Page 9-15.

³¹ A "DROP retiree" is a retiree who participates in DROP and concludes the DROP participation period. Note that this term may not apply to certain elected officers filling an elective or appointed position. Separate termination and reemployment requirements may apply to such officers, as described on Page 9-31.

Health Insurance Subsidy

A DROP participant is not eligible to receive monthly retiree health insurance subsidy (HIS)³² payments while in DROP; however, employer contributions are due for HIS throughout the participant's DROP period. Upon conclusion of DROP, the DROP retiree may apply for and, if the retiree meets the eligibility requirements, start receiving monthly health insurance subsidy payments.

Counseling Employees

The following information should help you in counseling employees on the major questions they may have about DROP.

To DROP or Not to DROP - What Are the Questions???

If you are eligible to retire (or getting close and thinking about it), one of the most important issues you will face is deciding whether to retire now, retire later, or join DROP and, in effect, do both; retire now, but continue to work for up to five years, allowing your retirement benefits to accumulate into a "nest egg" to enhance your retirement benefit. This decision is a highly personal one, and your individual answer will depend greatly on your own particular circumstances.

To help you decide, you may ask the division to prepare a DROP estimate for you. The estimate will show the benefits you could receive if you join DROP versus the benefits you would receive if you choose to remain in the FRS for the same period.

Once you get these estimates, you might want to gather any significant financial data relevant to your situation and meet with an accountant or financial planner to discuss your personal financial situation. The advice you get will probably not be free, but if you are unsure about how to proceed, it could be well worth the expense.

You will want to consider your potential DROP benefit, your expected monthly FRS benefit, any personal investments or other assets you may have (such as your home), and your anticipated Social Security benefit (and when you expect to begin drawing this benefit). You will also want to consider any significant debts you may owe as well as other liabilities you may have.

You might want to ask yourself some questions in order to maximize your chances of coming to the right conclusion for you. For example:

- How much time do you have to decide? Are your circumstances such that you must decide quickly, or are you in a position to defer your DROP election to a later date?
- Are you anxious to retire now, or can you wait? Can you picture yourself continuing to work for a few more months or years?
- Will you be ready to stop working in no more than five years from your DROP eligibility date (or deferral date)? If not, do you have another job in mind or other plans?
- Do you expect a big pay increase or promotion (or have you recently gotten one)? If so, will it increase your compensation significantly over the next five years? Would the increase in your monthly benefit resulting from the boost in your AFC be enough to offset the value of your projected DROP lump sum, withdrawn in monthly increments over the course of your lifetime? (You could ask an accountant or financial planner about potential payout methods, such as various types of annuities, IRA structured payouts, individual qualified trusts, or other possible financial arrangements, to determine the form of investment and/or structured payout that will best enhance your retirement.) This is an individual consideration that each member will have to compare and decide.

³² For more on the retiree health insurance subsidy, see Chapter 12, Part II.

- Will the money you expect from DROP participation be used to increase your retirement income after DROP by “rolling over” your DROP proceeds into a tax-sheltered individual retirement account (IRA) or other investment? If so, how much interest must you earn on your investment to exceed the loss of retirement income that results from a lower FRS benefit?
- What impact might retiring early have on your potential Social Security benefit? For example, if you enter DROP at age 50, stay in DROP for five years and terminate at age 55, under current federal age requirements you could have from seven to 10 years of zero salary factored into the calculation of your Social Security benefit (the years between ages 55 and 62 to 65). This could reduce your benefit. Contact the Social Security Administration (SSA) to determine the potential impact on your future benefit. You could call the SSA toll-free at 800-772-1213 or, if you have access to the Internet, you could reach the SSA at: [ssa.gov](https://www.ssa.gov). From the SSA homepage, under “Online Direct Services,” select “Request a Personal Earnings and Benefit Estimate Statement” and follow instructions from there.
- Would you like to leave a lump sum to your beneficiary or do you want to provide a guaranteed benefit to an otherwise ineligible beneficiary? If so, DROP could allow you to do so. (Under the FRS, a retiring member has limited payout options, none of which directly provide for a lump sum payout. Moreover, to leave a benefit to someone other than a spouse or financially dependent family member, you must elect the Option 2 form of payout, which provides a benefit to your chosen beneficiary at your death only for the remainder of the 10-year period after you retire.)
- Do you have a retirement “dream” that would cost more than you have in savings, but might be afforded through DROP? For example, if you don’t need your DROP capital to make your retirement more secure, and you have always dreamed of buying a boat and sailing into the sunset or buying an RV and touring the back roads and campgrounds of America, DROP might give you a way to make your dream a reality.
- If you envision yourself retiring at a relatively early age and embarking on a new career or starting a small business, would a DROP account provide the money you’d need?

DROP Estimates

Members can project estimates of benefits with DROP participation from their FRS Online account. Employers can also use FRS Online to project benefit estimates, with or without DROP participation, for their employees.

STATUTORY REFERENCE:

Sections 121.091(13) and 121.4501(21), Florida Statutes

XV. FRS INVESTMENT PLAN

The FRS Investment Plan, an optional defined contribution program. This plan is available to the general membership and allows members to establish individual retirement investment accounts under the provisions of section 401(a), Internal Revenue Code, in lieu of the FRS Pension Plan.

Administration

The State Board of Administration (SBA), composed of the Governor as chair, the Chief Financial Officer, and the Attorney General, is responsible for administration of the FRS Investment Plan³³. The SBA has contracted with a third-party administrator (Alight Solutions) to provide services related to billing, record keeping, accounting, fund disbursement, etc., and has contracted with additional third party organizations (TekStream, GuidedChoice, and EY) to provide educational services. Alight Solutions is a developer of educational materials; TekStream is a developer of the online website, [MyFRS.com](https://www.myfrs.com); EY provides education for members through seminars and telephone counseling; and GuidedChoice provides members the online Advisor Service for tailored, unbiased investment advice to help them reach their retirement goals. The SBA also evaluates, selects, and monitors performance of investment providers and products, subject to statutory guidelines. The division administers the FRS Pension Plan, a defined benefit plan, and, for Investment Plan members, also processes retirement contributions, maintains creditable service records, and administers disability, in line of duty death, and Health Insurance Subsidy benefits.

Eligibility

An officer or employee, as defined in section 121.021(11), Florida Statutes, may elect to participate in the FRS Investment Plan in lieu of the FRS Pension Plan, provided that the employee:

- Is an active member of the FRS (including renewed members initially enrolled prior to July 1, 2010); or
- Participates in, or is eligible to participate in, the Senior Management Service Optional Annuity Program or the State Community College System Optional Retirement Program (existing SCCSORP members have been eligible since July 1, 2003); or
- Is eligible to participate in, but does not participate in, the State University System Optional Retirement Program (SUSORP) or, as a senior manager with a local agency, is eligible to withdraw from the FRS in lieu of remaining in the FRS Senior Management Service Class.

However:

- Any such officer or employee who elects to participate in the FRS Investment Plan (whether by active election or by default as of January 1, 2018) or chooses membership in the FRS Pension Plan, or who elects to retain membership in an eligible optional retirement program, has one opportunity to change this decision by exercising the second election as described on Page 9-39; and
- Active DROP participants and SUSORP participants³⁴ are ineligible to participate.

³³ A seven-member advisory committee was temporarily established to advise the SBA in implementing and administering the FRS Investment Plan, together with the Investment Advisory Council. After two years, the advisory committee ceased to function and was eliminated (see Chapters 2003-6 and 2005-253, Laws of Florida).

³⁴ Mandatory SUSORP participants are not eligible to transfer to the Investment Plan; other SUSORP participants had a window from January 1, 2008, through December 31, 2008, to transfer to the FRS (either Pension Plan or Investment Plan).

to covered employment prior to July 1, 2010, becomes a renewed member of the FRS, and elects to participate in the FRS Investment Plan).

Election and Enrollment

A DROP participant with any questions regarding this investment option should contact EY at 866-446-9377, Option 1. To implement this choice, the DROP participant should contact Alight Solutions, the third-party administrator for the Investment Plan at 866-446-9377, Option 4.

New Hires

Any employee first employed in an FRS eligible position is, by default, enrolled in the FRS Pension Plan at the commencement of employment. Effective January 1, 2018, any employee first employed in an FRS eligible position or going through the first election period will have eight months after the employee's month of hire to make an election to participate in the FRS Investment Plan or the FRS Pension Plan. If no election is made within the prescribed time period, the employee will default into the FRS Investment Plan unless the member is in the Special Risk Class. Special Risk Class members will default into the FRS Pension Plan if they do not make an active election within the prescribed time period.

To make an active choice, the employee's election must be made in writing or by electronic means and must be filed with Alight Solutions, the third-party administrator. If the Investment Plan is chosen, membership is effective retroactive to the date of hire, and both employer and employee contributions submitted to the FRS Pension Plan during the election/enrollment period for such member are transferred to the member's individual Investment Plan account.

“Second Election” Transfer Option

After the plan choice period has concluded, or in the month after the initial plan election is received, if sooner, each eligible employee has one chance to change the initial decision (without regard to whether the employee made an active plan choice or simply retained membership in the FRS Pension Plan by default). To accomplish such a plan choice change:

- To move from the FRS Investment Plan to the FRS Pension plan, the employee must pay an amount calculated as described below:
 - Any former member of the Pension Plan who, upon joining the Investment Plan, elected to transfer the present value of the employee’s pension benefit to the Investment Plan account is required pay an amount representing the present value of the accumulated benefit obligation as of the date of transfer.
 - Any other member of the FRS Investment Plan is required to pay a sum representing the actuarial accrued liability as of the date of transfer to the Pension Plan.

In either case, the division will calculate the amount due. Moneys must come first from the member’s investment plan account. If this sum is insufficient, the difference must be paid from personal funds.

- To move from the FRS Pension Plan to the FRS Investment Plan, the employee must simply follow the procedure for initial election/enrollment.

Eligible employees may elect to switch plans only if they are earning service credit in an employer-employee relationship consistent with the requirements of section 121.021(17)(b), Florida Statutes, excluding leaves of absence without pay, when the second election is received. The second election transfer elections become effective on the first day of the month after the election is received by the third-party administrator. The employee must have been in an employer-employee relationship when the election was received by the third-party administrator (received no later than the day of termination) and must have earned service credit for that month. However, no employer-employee relationship is required in the effective month of transfer for such elections to take effect, nor is it required that contributions for the eligible employee be received in that month.

Historical Election Information

To implement the FRS Investment Plan, separate educational outreach and enrollment periods were established in 2002 and 2003 for three specified groups of existing employees: state employees (included state agencies, state universities, community colleges, water management districts, and blind vending operators), district school board employees, and local government employees (included all other local government employees and renewed members from all groups). Each educational outreach period lasted at least 90 days followed by a 90-day enrollment period. The enrollment period for state employees was from June 1, 2002, through August 31, 2002. The enrollment period for district school board employees was from September 1, 2002, through November 30, 2002. The enrollment period for local government employees was from December 1, 2002, through February 28, 2003. FRS members who were not actively employed in a covered position during their respective enrollment period and who subsequently return to covered employment are treated as “new hires” for plan choice purposes.

Vesting

After one year of creditable service, an FRS Investment Plan member vests in employer contributions allocated to the account under section 121.72, Florida Statutes, plus earnings; however, any member transferring a present value of FRS Pension Plan service credit must meet the vesting requirements under the FRS Pension Plan³⁵ to vest in the transferred present value amount plus earnings. All service under either program is creditable for vesting purposes. If an Investment Plan member terminates employment without taking a distribution before meeting all vesting requirements, any nonvested account accumulations will be held in a suspense account for up to five years. If the member returns to covered employment within the five-year suspense period, all moneys held in the suspense account, plus actual earnings, would be transferred to the member's individual account. If the Investment Plan member fails to return to covered employment within five years of termination, all nonvested accumulations in the suspense account (and associated service credit) will be forfeited.

SCCSORP Transfer Option

Exclusive of the “second chance” opportunity available to members of the FRS as described on Page 9-39, since July 1, 2003, each participant of the State Community College System Optional Retirement Program has one opportunity, to be exercised at the employee's discretion, to elect to transfer from that optional retirement program to either the FRS Pension Plan or the FRS Investment Plan³⁶, as follows:

- To move to the FRS Pension Plan, the employee must pay to the FRS Trust Fund an amount representing the present value of that employee's accumulated benefit obligation for the affected period of transferred service. In exchange, the employee will receive service credit under the FRS Pension Plan equal to the years of service while participating in the optional retirement program. The division will determine the amount required, based on requirements of the law and using a formula and methodology certified by the consulting actuary for the FRS. Moneys must come first from the member's SCCSORP account. If this sum is insufficient, the difference must be paid from personal funds.
- To move to the FRS Investment Plan, the employee will retain within the State Community College System Optional Retirement Program any contributions, interest, and earnings credited to the employee under that program, and future employer and employee contributions will be deposited in the member's FRS Investment Plan account, for investment as directed by the member.

³⁵ See Page 9-2 for more on vesting requirements under the FRS Pension Plan.

³⁶ Note that a SCCSORP participant may alternatively elect to stay in SCCSORP and transfer to the program account the present value of any service credit he may have retained under the FRS Pension Plan for the period of transfer eligibility (see Chapter 1, Part IV, section I, for details).

Benefits

Benefits Provided to Investment Plan Members

FRS Investment Plan benefits accrue in individual, member-directed accounts. Any vested member can elect to take distribution of the vested proceeds as a lump sum or direct rollover, or in periodic payments. Survivor benefits for a death other than in line of duty are distributed in a similar manner. Investment Plan members are covered for Social Security and are eligible for the retiree health insurance subsidy (HIS) available under section 112.363, Florida Statutes. However, to qualify for the HIS payments, the Investment Plan member must first meet the requirements for normal retirement under the FRS Pension Plan.

Payment of Benefits

Distributions under the FRS Investment Plan may not be made until the member has been terminated for three calendar months. However, up to 10 percent* of the Investment Plan account may be distributed to a member who has been terminated for just one calendar month if the member has met the requirements for normal retirement under the FRS Pension Plan, as provided in section 121.021(29), Florida Statutes.

* Note that this type of early partial distribution must first be authorized by SBA rule.

Suspension/Forfeiture of Unclaimed Benefits

If an Investment Plan payee fails to present for payment, within 180 days after the last day of the month originally issued, a financial instrument issued for the payment of retirement benefits, such instrument will be cancelled and the payment amount will be transferred to the Investment Plan's trust fund and held in suspense for up to 10 years in the payee's name. If a proper application for the affected benefits is made within the 10-year suspension period, the moneys held in suspense, excluding earnings, will be payable. If no application is made within the required period, such amounts and any earnings thereon will be forfeited and become assets of the FRS Investment Plan³⁷.

Designation of Beneficiaries

Each FRS Investment Plan member may designate one or more persons to receive any benefits that may be payable in the event of the member's death. [Form IPBEN-1](#), which is available for this purpose, must be signed by the member and filed with Alight Solutions, the third-party administrator. Beneficiaries may be named sequentially or jointly.

If an Investment Plan member dies before the effective date of retirement, the spouse at the time of death will be the beneficiary unless the member has designated a different beneficiary after the most recent marriage. If the member dies after retirement, the beneficiary most recently designated by the member on a form or letter filed with the third-party administrator will be the beneficiary entitled to any survivor benefits payable. However, if no beneficiary has been named, or no designated beneficiary survives the member:

- The beneficiary will be the spouse of the deceased member, if living;
- If the spouse is not living, the beneficiary or beneficiaries will be the living child or children of the member;

³⁷ Such forfeitures are not subject to the provisions of Chapter 717, Florida Statutes.

- If the spouse is deceased and no children survive, the beneficiary or beneficiaries will be the member's father and/or mother, if living; or
- Otherwise, the beneficiary will be the member's estate.

Whenever an Investment Plan member wishes to designate a primary beneficiary other than the spouse, the spouse must sign the beneficiary designation form to acknowledge the designation. (This requirement does not apply to the designation of one or more contingent beneficiaries to receive any benefits remaining upon the death of the primary beneficiary or beneficiaries.)

A member may designate that survivor benefits be paid through a trust to a beneficiary who is a minor or is physically or mentally incapacitated. However, if at the time of payment the beneficiary is no longer a minor or no longer incapacitated, benefits must be paid directly to the beneficiary, notwithstanding the member's designation, and notwithstanding the provisions of the trust.

Disability

A member of the Investment Plan who becomes totally and permanently disabled³⁸ may elect to retire on the retirement funds accumulated in their individual accounts or:

- To apply for a regular disability benefit under the FRS Pension Plan, provided that the member has completed a minimum of eight years of creditable service (based on total FRS creditable service under both plans) and is not a renewed member; or
- To apply for an in-line-of-duty disability benefit under the FRS Pension Plan, regardless of length of service, provided that the member is not a renewed member.

Upon application for disability and approval by the division, the member's entire individual account will be transferred to the disability account of the FRS Trust Fund. If the member had retained Pension Plan credit as a hybrid member of both plans, the actuarial present value of the member's Pension Plan account will also be transferred to the disability account of the FRS Trust Fund. The disabled retiree will be entitled to a lifetime Pension Plan disability benefit as if the retiree had continuously been a member of the Pension Plan.

³⁸ A member is considered totally and permanently disabled if the member is prevented, due to a medically determinable physical or mental impairment, from rendering useful and efficient service as an officer or employee.

ILOD Death Benefit

The right of a surviving spouse or dependent children to receive ILOD death benefits supersedes any other beneficiary designation made by the member.

Investment Plan members in the Special Risk Class have the following ILOD survivor benefit eligibility:

- The ILOD survivor benefit is 100 percent of base salary at the time of the member's death payable for the surviving spouse's lifetime or until the youngest dependent child becomes age 18. The benefit payable to the surviving children can be extended up to age 25 if unmarried and enrolled as a fulltime student.
- If the member's ILOD death occurred on or after July 1, 2016, the member's Investment Plan account balance must be transferred to the Pension Plan for the surviving spouse or dependent children to receive a monthly retirement benefit.
- If the member's ILOD death occurred between July 1, 2013 and June 30, 2016, the benefit paid to the surviving spouse or dependent children is actuarially adjusted if the member's account balance was paid out to the spouse or on behalf of the dependent children for benefit payments beginning on or after July 1, 2016
- If the member's ILOD death occurred between July 1, 2002, and June 30, 2013, the benefit paid to the surviving spouse or dependent children is actuarially adjusted if the member's account was paid to the spouse or on behalf of the dependent children for benefit payments beginning on or after July 1, 2017.

Investment Plan members in classes other than the Special Risk Class have the following ILOD survivor benefit eligibility for members whose ILOD death occurred on or after July 1, 2002:

- The monthly benefit is 50 percent of the member's base salary payable for the lifetime of the surviving spouse or until the youngest dependent child turns 18.
- If the member's ILOD death occurs on or after July 1, 2017, the member's Investment Plan account balance must be transferred to the Pension Plan for the surviving spouse or dependent children to receive a monthly retirement benefit.
- If the member's ILOD death occurs between July 1, 2002, and June 30, 2017, the benefit paid to the surviving spouse or dependent children is actuarially adjusted if the member's account was paid to the spouse or on behalf of the dependent children for benefit payments beginning on or after July 1, 2017.

Employee Contributions

As of July 1, 2011, FRS Investment Plan members are required to make employee contributions.

Employer Contributions

To fund benefits under the FRS Investment Plan, FRS employers and employees contribute a specified percentage of each participating employee's gross monthly compensation to the plan. The contribution is based on a uniform "blended rate," as established by the Legislature, which balances contribution rates for the Pension and Investment³⁹. Contribution rates cover five cost areas:

- A contribution to the employee's account to fund the termination/retirement benefit;
- A contribution to fund disability coverage;
- A contribution to fund ILOD death coverage;
- A contribution to fund the retiree health insurance subsidy payable under section 112.363, Florida Statutes;
- A contribution to fund administrative costs; and
- A contribution to fund the unfunded actuarial liability of the FRS Pension Plan.

Contribution Rates

The uniform blended rates that determine contributions paid by employers and employees for members of both the FRS Pension Plan and the FRS Investment Plan for Fiscal Year 2021-22 are set forth below:

Blended Contribution Rates ¹ for the FRS Pension Plan and FRS Investment Plan					
Class of Membership	Retirement Contribution for Employers ²	Retirement Contribution for Employees ³	Administrative/ Educational Fee	HIS Contribution	Total Contribution
Regular	9.10%	3.00%	0.06%	1.66%	13.82%
Special Risk	24.17%	3.00%	0.06%	1.66%	28.89%
Special Risk Admin.	36.04%	3.00%	0.06%	1.66%	40.76%
EOC - Legislators	62.01%	3.00%	0.06%	1.66%	66.73%
EOC – Gov-Lt. Gov-Cab	62.01%	3.00%	0.06%	1.66%	66.73%
EOC – State Attys, PDs	62.01%	3.00%	0.06%	1.66%	66.73%
EOC – Judicial	39.19%	3.00%	0.06%	1.66%	43.91%
EOC – County Officers	49.70%	3.00%	0.06%	1.66%	54.42%
Senior Management	27.29%	3.00%	0.06%	1.66%	32.01%

¹ The uniform blended rates in this chart are achieved by determining the benefit obligations for members under both plans and dividing the total dollars required by the estimated gross compensation of members in both plans and by offsetting a portion of the cost through dedication of surplus assets in the Florida Retirement System Trust Fund toward rate reduction.

² Rates in this column include embedded allocation for disability coverage as shown in Column 2 of the chart on the following page. These rates also include any applicable UAL rates set by the legislature.

³ Effective July 1, 2011, employee contributions were required for members of the FRS Pension Plan and the FRS Investment Plan.

³⁹ See Chapter 2 for more on contributions and contribution rates.

Allocations for Investment Plan Members

Amounts that are deposited in individual member accounts, or are allocated to the FRS Trust Fund to provide for disability coverage, are based on rates separately set by law, as shown in the chart below. Allocations are made to or on behalf of Investment Plan members from the total contributions received for all FRS members. Allocation rates for Fiscal Year 2021-22 are set forth below:

FRS Investment Plan Allocation Rates¹			
Class of Membership	Retirement Allocation²	Disability Allocation³	TOTAL Allocation⁴
Regular	6.30%	0.25%	6.55%
Special Risk	14.00%	1.33%	15.33%
Special Risk Admin.	7.95%	0.45%	8.40%
EOC - Legislators	9.38%	0.41%	9.79%
EOC – Gov-Lt. Gov-Cab	9.38%	0.41%	9.79%
EOC – State Attys, PDs	9.38%	0.41%	9.79%
EOC – Judicial	13.23%	0.73%	13.96%
EOC – County Officers	11.34%	0.41%	11.75%
Senior Management	7.67%	0.26%	7.93%

¹ See chart on Page 9-44 for contribution rates used to determine monthly contributions paid by FRS employers and employees on behalf of members.

² The monthly retirement allocation based on rates in this column is allocated to the member's account under section 121.72, Florida Statutes, and includes required employee contributions.

³ This column shows allocation rates for disability coverage for Investment Plan members under section 121.73, Florida Statutes. The disability allocation is embedded in the uniform blended retirement contribution rate shown in the chart at the top of the page and is funded by the employer.

⁴ This column shows total allocation rates for retirement/disability coverage (excluding rates for HIS, UAL and administrative/educational fees).

Liability for Market Losses and Associated Costs Due to Delinquency

In addition to assessments that may be levied for late submissions as described in Chapter 2, Part III, section D, and Chapter 6, Part III, if contributions or accompanying payroll data are not received within the calendar month due (including contribution adjustments owed due to employer error or correction), and the delinquency results in market losses to the member:

- The reporting unit must reimburse the member's account for market losses resulting from the late contributions.
- Alight Solutions, as the third-party administrator of the Investment Plan, will calculate market losses for each affected member. The reporting unit must also pay the cost of Alight Solutions calculation and reconciliation adjustments resulting from the late contributions.

Return of Excess Contributions

An Investment Plan member terminates employment and takes a distribution is responsible for returning any excess contributions that were erroneously provided by the reporting unit, adjusted for any investment gain or loss incurred while in the member's Investment Plan account. The SBA or its designated agent will notify terminated members of their obligation to repay such excess contribution amounts.

STATUTORY REFERENCE:

Section 121.091(13)(c)5., Florida Statutes, and Parts II and III of Chapter 121, Florida Statutes

FRS RULE REFERENCE:

Chapters 19-11 and 60S-4.003, Florida Administrative Code